

Political Determinants of Intergovernmental
Transfers in Patronal Regimes:
A Russian Case Study

A thesis presented

by

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Table of Contents

INTRODUCTION.....	3
CHAPTER 1 Reexamination of Intervening Political Factors in the Determination of Intergovernmental Transfers.....	7
(i) Data and Methodology.....	10
(ii) Reassessing Previous Political Determinants in 2013.....	15
(iii) New Political Determinants of Intergovernmental Transfers in 2013.....	21
(iv) Concluding Thoughts.....	28
CHAPTER 2 Towards an Understanding of the Dynamics of Political Determinants of Intergovernmental Transfers.....	30
(i) Hale's Patronal Politics.....	30
(ii) Explaining the Dynamism of Intergovernmental Transfers	34
CONCLUSION.....	45
BIBLIOGRAPHY.....	48

Introduction

The literature on fiscal federalism and distributive politics in the Russian Federation since the collapse of the Soviet Union has demonstrated that the allocation of intergovernmental transfers follows not only the logic of economic factors, but is also partly determined by political factors. These transfers are designed as an aid for subnational governments to improve various aspects of their region, including education, social welfare, and health care, as well as helping to close the gap between poorer and wealthier regions in the country. Yet, previous research conducted on the distribution of intergovernmental transfers has found evidence of political factors playing a role in determining how much and where the federal government is sending financial aid. In the words of Martinez-Vazquez and Boex, “The explanatory power of the economic variables... has steadily declined over time; by 1997, economic variables accounted for only roughly one-third of the variation in these transfers.”¹ While a number of political factors have been identified over the years, the literature on the subject lacks an examination of the factors playing a role in more recent years. More importantly, the literature fails to provide a substantive explanation for the dynamics of these shifting influences. Previous authors have produced empirical evidence of political factors in the decision-making process for the budget, but haven’t provided any mechanism or system detailing the causes of the instability of the influence of these factors.

In this paper, I intend to address two concerns regarding the previous literature. First, while a number of papers have been published on the variety of political determinants of

¹ Martinez-Vasquez, JorgeBoex. “Russia’s Transition to a New Federalism.” The World Bank, February 28, 2001. <http://documents.worldbank.org/curated/en/2001/02/2005716/russias-transition-new-federalism>. 65.

intergovernmental transfers, these only address the relationship from the early 90s through Putin's second term as president. I will re-examine the previous explanations regarding the interplay of politics and transfers with an original set of data consisting of intergovernmental transfers and possible political factors just before and after the nation-wide protests concerning the Duma Elections of 2011 and Putin's re-election in 2012. As I will demonstrate further below, the political factors that have played a role in the determination of budgets between the early 90s and 2008 seem to lack significance in the reexamination of intergovernmental transfers in 2013.

Second, I will provide an answer to the unaddressed question that arises from these shifting factors. While these papers have (correctly) identified a number of political factors affecting the determination of the amount and recipients of transfers, they provide no satisfying conclusion as to why the significance of these factors changes over time. To put it more clearly, what explains the dynamics of political determinants of intergovernmental transfers? Why do some political factors play a larger role early on in the history of the Russian Federation, while these same factors have little to no significance in more recent times? What explains the emergence of new factors?

To answer this question, I suggest that the dynamics of the political determinants of intergovernmental transfers is best explained by Henry Hale's theory on the political dynamics of patronal regimes in the post-Soviet space. I will argue that both the time line and features of the development, establishment, and maintenance of the patronal political system in Russia explain the variability in the factors influencing transfers between the federal and subnational governments. Even despite the institution of various decentralizing economic reforms, partly

intended to make regional tax obligations clear, Russia became more centralized with the establishment of Putin's vertical, power shifted from the regions to the center. (Table 1) This shift significantly changed the relationship between the regions and the center. At the same time, thanks to the increase in the price of oil, the federal government was becoming wealthier and wealthier, which granted Putin a useful bargaining chip when it came to negotiating with regional power structures and establishing his own influence in the regions.

1999- 2001	<i>Further fiscal decentralization and political recentralization</i> 1999: Federal Law No. 184-FZ (general principles of the organization of legislative and executive government bodies in regions) 2000: Development of the formula for equalization transfers; establishment of federal okrugs; development of provisional methodological recommendations on IGFR for subjects of the federation; adopting Tax Code (Part 2); Budget Code becomes effective 2001: Fiscal federalism strategy through 2005 adopted
2002- 4	<i>Local government reform and further political centralization</i> 2002: Implementation of Fiscal federalism strategy through 2005 2003: Passing Federal Law No. 131-FZ (general principles of the organization of local self-government) 2004: Passing of Federal Law No. 122-FZ that amends the Budget Code and a number of other federal laws, abolishes some federal laws, focusing on delineation of responsibilities of federal and regional governments, revenue assignments, transfer allocation, and monetization of in-kind benefits; elimination of the election of governors
2005- 8	<i>Stabilization of IGFR</i> 2005: Federal Law No. 122-FZ becomes effective 2006: Federal Law No. 131-FZ becomes effective; some regions are merged 2008: Transition to medium-term planning, changing methodology for equalization transfers

Table 1: Alexeev, Michael, and Shlomo Weber, eds. *The Oxford Handbook of the Russian Economy*. 1st ed. Oxford University Press, 2013. Table 27. Sourced from: Table 3.1 De Silva et al. (2009)

Thus, my paper makes two contributions to the literature on the political determinants of intergovernmental transfers. First, it adds further empirical evidence to the role political factors play in the establishment of the Russian Federal budget. It both demonstrates the decreasing influence of previously significant political factors in the determination of transfers, as well as

adds another non-economic factor to the list, that is, the volume of protests in a given region. Further, it extends the examined time line for the dynamics of intergovernmental transfers to 2013, using original data collected from the Treasury and Federal State Statistics Service of the Russian Federation.

Second, I provide a theoretical explanation as to the underlying causes of a shifting system for determining federal subsidies to the region based on Hale's recent political theory regarding the political development of the post-Soviet space over the last quarter century. I demonstrate that changing significance of political factors in the budget-setting process relate to the introduction of a patronal political system in Russia under presidents Yeltsin and Putin. Changes in the political realm, both formal and informal, precipitate the change in fiscal federalism, both formal and informal.

Chapter 1 begins by re-examining the influence of previously identified political determinants of intergovernmental transfers using an original data set, composed of economic and political data from 2011-2013. I then provide a model that suggests the newly identified significance of protests in regional subsidies. Chapter 2 provides a theoretical explanation as to the shifting influences of political factors in fiscal federalism. The remainder of the thesis offers general conclusions and future implications, possible counter arguments, and areas for further research.

Chapter 1 - Reexamination of Intervening Political Factors in the Determination of Intergovernmental Transfers

The literature on fiscal federalism in Russia is diverse, ranging from broad examinations of center-periphery relations as relates to macroeconomics, to much narrower research into inter-municipal transfers.² The category of paper that my research focuses on is somewhere in between these two extremes. In short, this area of research concerns intergovernmental transfers and the political factors that play a role in their allocation. Intergovernmental transfers play a vital part in fiscal federalism as they close the financial gap between richer and poorer regions within Russia. Given this, we can assume that there is some way to determine the ideal distribution of intergovernmental transfers. According to Popov (2004), ideal transfers should be based on the tax-raising potential of regions combined with their budgetary needs to provide public services for their citizens. For example, the Sakha Republic has a much smaller tax base, given its lack of enterprise, and relatively small population as compared to the cities of Moscow or St. Petersburg. As such, the calculation for the amount of transfers allocated to these regions by the federal government should take into account these crucial, financial factors.

For the purposes of this paper, I will define the ideal intergovernmental transfer (IT) amount as a function of a region's index of tax potential (ITP) and their index of budget expenditures (IBE).

² See related readings in bibliography.

$$IT = ITP + IBE^3\ ^4$$

Yet, previous research has shown that these budget decisions do not strictly follow this methodology. Rather, political factors influence the final numbers. Treisman⁵, Popov⁷, Thiessen⁸, and Jarocińska⁹ have all found evidence of various non-economic factors corrupting the methodology for transfers.

Daniel Treisman was one of the first to examine intergovernmental transfers in Russia following the collapse of the Soviet Union. He succinctly describes his question as follows, “what factors best explain why some regions receive larger net central transfers than others?”¹⁰ Treisman’s analysis suggests that a number of political factors, such as, support of governors and regional election results, were also used in final determination of transfers. More specifically, between 1993 and 1996, there is evidence of a strategy of appeasement, i.e., the federal

³ This is similar to Popov’s formula, but it just drops the actual dollar amounts, as they are notoriously unreliable between years.

⁴ Recent literature suggests that this may be the best method. “As noted earlier, the foregoing measures [of subnational share in total tax revenues and budgetary expenditures] are not very indicative of the degree of real fiscal decentralization in Russia. In particular, the rising share of regional tax revenue does not necessarily reflect greater independence of regional governments in revenue collection. Taxes in Russia have always been collected by the federal tax service. The federal governments also determines the tax bases of all major taxes.” Alexeev, Michael, and Shlomo Weber, eds. *The Oxford Handbook of the Russian Economy*. 1st ed. Oxford University Press, 2013. <http://www.oxfordhandbooks.com/view/10.1093/oxfordhb/9780199759927.001.0001/oxfordhb-9780199759927>.

⁵ Treisman, Daniel. “The Politics of Intergovernmental Transfers in Post-Soviet Russia.” *British Journal of Political Science* 26, no. 3 (1996): 299–335.

⁶ Treisman, Daniel. “Deciphering Russia’s Federal Finance: Fiscal Appeasement in 1995 and 1996.” *Europe-Asia Studies* 50, no. 5 (July 1, 1998): 893–906.

⁷ Popov, Vladimir. “Fiscal Federalism in Russia: Rules versus Electoral Politics.” *Comparative Economic Studies* 46, no. 4 (December 2004): 515–41.

⁸ Thiessen, Ulrich. “Fiscal Federalism in Russia: Theory, Comparisons, Evaluations.” *Post-Soviet Affairs* 22, no. 3 (2006): 189–224.

⁹ Jarocińska, Elena. “Intergovernmental Grants in Russia.” *Economics of Transition* 18, no. 2 (April 1, 2010): 405–27.

¹⁰ Treisman, “Deciphering Russia’s Federal Finance: Fiscal Appeasement in 1995 and 1996,” 894.

government providing larger total net transfers to regions that were most opposed to the party of power.

Vladimir Popov returned to Treisman's work in 2004, and also found evidence that intergovernmental transfers were only, in part, based on the tax potential and budget expenditure indices in the mid-1990s. Contrary however to Treisman's conclusion, Popov argues that "rather than appeasing the opponents, the federal centre", in the mid to late-90s "seems to punish them financially."¹¹ Furthermore, Popov argues that increased or decreased transfer amounts are less related to the absolute results of the previous election, but rather the relative change in these results compared to previous years. (Were this true today, then regions like Chechnya, which vote 99% for Putin, would receive less funds following the next election were Putin to only receive 98% of the vote.)

Elena Jarocinska returns to this debate between Popov and Treisman, extending their hypothesis for the role of electoral behavior to Putin's first term as president. Using more sophisticated statistical methods, Jarocinska's analysis confirmed Popov's conclusion that intergovernmental transfers played the role of a reward, and not that of appeasement that Treisman had proposed. That is, the reward strategy of transfers trumped the appeasement method. However, Jarocinska points out that there is only evidence of the reward strategy in the 1990s. After 1999, however, neither the appeasement nor reward methods for determining

¹¹ Popov, "Fiscal Federalism in Russia: Rules versus Electoral Politics," 536.

financial aid appeared to hold any significance. Rather, Jarocinska found a statistically significant relationship of Putin's visits to a region correlating with increased intergovernmental transfers.

As I addressed above, following Jarocinska's research, there is a gap in the literature regarding the political factors in intergovernmental transfers for the time period after 2004. While others have examined these periods qualitatively, none have returned to the question of which, if any, of these factors influence transfers in more recent years. The Russian Federation has undergone vast transformations since 2004. Political reforms, such as the appointment of governors, leadership change with the election of Dmitry Medvedev, and economic issues following the global financial crisis of 2009 have all changed the political and economic landscape of the Russian Federation. Given such, we would expect the political determinants of transfers to change over this period, not to mention the state's own methodology for determining aid. Thus, I propose to return to the previous conclusions and determine whether or not any of the identified factors influence intergovernmental transfers in more recent times, specifically 2012 and 2013.

Data and Methodology

In order to reexamine the conclusions made by previous scholars on the factors affecting transfers, I will use economic and political data collected on 80 of Russia's regions from 2011 to 2013.¹² I will test these previous hypotheses on a variety of dependent variables relating to intergovernmental transfers.¹³

¹² For the purposes of this paper, $N = 80$, as Crimea had not yet been annexed, and the state's own data on the regions subsumes the autonomous okrugs' data within other regions.

¹³ Some may ask why I chose intergovernmental transfers as my dependent variable, as opposed to equalization transfers, which are non-earmarked funds intended to close any budget issues that a region may suffer. The

Data on total intergovernmental transfers and regional income in 2012 and 2013 were collected from the Russian Federal Treasury's website.¹⁴ The figures for both the Index of Tax Potential and Index of Budget Expenditure were acquired from the Russian Ministry of Finance.¹⁵ In order to test the conclusions of Treisman and Popov, electoral data concerning the 2012 Presidential election were collected from the website for the Central Election Committee of the Russian Federation.¹⁶ To test Jarocinska's second conclusion, data on Putin's visits to the regions, both while Prime Minister and President during the 2011-2012 campaign, were collected from the archived Prime Ministerial website and the president's reported visits and meetings with regional leaders.^{17 18 19} A number of social, economic, and political variables that I will use as controls, as well as possible explanatory political factors for intergovernmental transfers, were collected from the Russian State Statistics Service.²⁰ These include data on gross regional product, GRP growth, population, regional government employment, and percent of people living in urban and rural

answer to that is simple: total intergovernmental transfers were available, while specific equalization transfers were not.

¹⁴ Russian Federal Treasury. *Konsolidirovannyye byudzhety sub'yektor Rossiyskoy Federatsii i byudzhetov territorial'nykh gosudarstvennykh vnebyudzhetnykh fondov* (*Consolidated Budgets of the Russian Federation Subjects and Budgets of the Territorial State Budget Funds*). <http://roskazna.ru/ispolnenie-byudzhetov/konsolidirovannye-byudzhety-subektor/>

¹⁵ Ministry of Finance of the Russian Federation. *Rezul'taty raspredeleniya dotatsiy na vyrovneniye byudzhetnoy obespechennosti sub'yektor Rossiyskoy Federatsii* (*Results of the Distribution of Grants for Leveling the Budgetary Provisions of the Subjects of the Russian Federation*).

http://minfin.ru/common/upload/library/2014/09/main/FFPR_2015-2017.pdf

¹⁶ Central Election Commission of the Russian Federation. *Vybory Prezidenta Rossiyskoy Federatsii v 2012 godu* (*Russian Federation Presidential Election in 2012*). http://www.cikrf.ru/banners/prezident_2012/index.html

¹⁷ There is the possibility of other, informal meetings between Putin and regional leaders that are not reported on Putin's online itinerary.

¹⁸ Website of the President of Russia. *Novosti-Sobytiya* (*News-Events*). <http://kremlin.ru/events/president/news>

¹⁹ Archived Website of the Chairman of the Parliament of the Russian Federation. *Sobytiya* (*Events*). <http://archive.premier.gov.ru/>

²⁰ Russian Federal State Statistics Service. *Regiony Rossii: sotsial'no-ekonomicheskie pokazateli* (*Russia's Regions: Socio-economic indicators*).

http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1138623506156

areas. Finally, data on the volume of regional protests were gathered from Tomila Lankina's original data set on protest trends.²¹

The summary statistics of the variables employed in the analysis are listed below in Table 2. Regressions were conducted for the total intergovernmental transfers in 2013 (standardized), the change in intergovernmental transfers between 2012 and 2013, and the change in the dependence of regional governments on intergovernmental transfers from the federal government. In the latter case, dependence is determined by the ratio of total intergovernmental transfers to total reported income in a given region.

²¹ Lankina, Tomila, and Alisa Voznaya. "New Data on Protest Trends in Russia's Regions." *Europe-Asia Studies* 67, no. 2 (February 7, 2015): 327–42.

Table 2

Variable	mean	min	Max	sd	N
Putinmeet	0.1	0	1	0.301893	80
Putinvisit	0.2625	0	1	0.442769	80
Putineither	0.3625	0	1	0.483755	80
ITP	0.84989	0.119	7.42	0.96221	80
IBE	1.24771	0.495	7.122	1.042127	80
GRP2012	623999	29616	1E+07	1302701	80
GRPgrowth	0.03376	-0.069	0.153	0.036544	80
GRPpc	291169	78934.2	1E+06	219617.3	80
forputin	556305	21310	2E+06	476499.2	80
pctputin	0.64239	0.4695	0.9976	0.101978	80
Foropp	153473	182	868736	144745.1	80
Pctopp	0.17415	0.0003	0.2909	0.052328	80
marginvic	0.46824	0.2375	0.9973	0.149478	80
pctpopputin	0.32447	0.16647	0.6183	0.073553	80
poverty	13.3625	6.5	30.7	4.240384	80
Pop	1791838	51000	1E+07	1761628	80
govtemp	19048.5	2677	72339	12829.75	80

Pctgov	0.01347	0.00604	0.0525	0.006312	80
TotalInc2012	9.6E+10	8.9E+09	2E+12	1.78E+11	80
TotalInc2013	1.1E+11	1.1E+10	2E+12	1.84E+11	80
GovTrn2012	2.2E+10	4.4E+09	9E+10	1.6E+10	80
GovTrn2013	2.9E+10	5.8E+09	2E+11	2.36E+10	80
pctdpngov2012	0.35022	0.05631	0.8786	0.177614	80
pctdpngov2013	0.38159	0.09768	0.8672	0.169364	80
chggovtrn	6.8E+09	-8E+09	7E+10	1.11E+10	80
pctchgtrn	0.01301	0.00815	0.0251	0.002686	80
chgpcctdep	0.01152	0.00802	0.0204	0.002224	80
Protest 11	8.7125	0	257	29.36121	80
Protest 12	6.8875	0	185	21.58644	80
TotProtest(std)	15.6	0	442	50.78587	80
pctcity12	0.6935	0.289	1	0.13201	80
pctrur12	0.3065	0	0.711	0.13201	80

Reassessing Political Factors in 2013

To test the results of the previous literature on this topic, I perform a simple OLS regression, using the following equation as a foundation:

$$IT_{2013} = \alpha * ITP_{lagged} + \beta * IBE_{lagged} + \gamma * InterveningFactor + \delta * Controls_{lagged}$$

This equation is used to estimate whether there exists any statistically significant relationship between the political factor in question and the amount of intergovernmental transfers in 2013 (IT2013 or GovTrn2013), controlling for the ideal equation, calculated by the lagged Indices of Tax Potential (ITP) and Budget Expenditure (IBE) for 2012. I then added the lagged variables for regional population (pop), percent urban population (pctcity12), and 2012 Gross Regional Production (GRP2012) as additional controls to check the robustness of the results. Finally, I add dummy variables to control for Moscow, the North Caucasus, and Republic status.

Following this analysis, I replace the dependent variable, intergovernmental transfers, with two other variables, the change in total transfers (chggovtrn) and the change in the dependence on the federal government (chgpctdep).

Beginning with a simple regression looking at the relationship between intergovernmental transfers in 2013 (standardized) and the ideal methodology for determining these transfers (in 2012), I find no statistically significant result at the p=.05 level. Additionally, I find that the ideal transfer formulation does not seem to determine the changes in intergovernmental transfers, nor the change in the regional governments' dependence on federal financial aid from 2012 to 2013.

Together, this suggests that despite a legislated methodology, there are indeed other variables that intervene in the amount-setting decisions for transfers. (Table 3)

Turning to Treisman and Popov's arguments for the significance of electoral results in the determination of intergovernmental transfers, I find no evidence to support the claim that presidential election results continue to affect transfers in 2012 to 2013.²² (Table 4) Similarly, presidential election results are not significant for the relative change in transfers from 2012 to 2013, nor the relative change in subnational dependence on federal subsidies. As I will discuss in more detail in my next chapter, this is perhaps due to the lack of competition in the 2012 presidential election and the prior confidence about the results. As no regions voted for a non-Putin candidate, regions were pro-Putin across the country, thus negating any need to appease or reward. While another possible conclusion of these results might be that, since the 90s, the formula for intergovernmental transfers has been codified, and thus is less influenced by political factors, such as election results. However, Jarocinska already showed that political factors do play a role. In particular, she found that Presidential visits to the regions were significant. Let us turn to a re-examination of this potential intervening variable.

²² Marginvic = Putin's margin of victory over second place finisher in regional election. Pctputin = Percent of voters who voted for Putin in regional election.

Table 3: Ideal Model for Intergovernmental Transfers

	<i>Dependent variable:</i>		
	scale(GovTrn2013)		
	(1)	(2)	(3)
ITP	0.207 (0.156)	0.016 (0.212)	-0.058 (0.173)
pop		-0.00000 (0.00000)	0.00000 (0.00000)
poverty		-0.004 (0.031)	-0.005 (0.026)
pctcity12		1.924** (0.893)	1.009 (0.948)
GRP2012		0.00000 (0.00000)	0.00000 (0.00000)
moscowdummy			5.171*** (0.849)
ncaucusdummy			0.397 (0.388)
republicedummy			-0.068 (0.259)
IBE	-0.236 (0.144)	-0.133 (0.170)	-0.074 (0.139)
Constant	0.119 (0.175)	-1.234 (0.776)	-0.717 (0.779)
Observations	80	80	80
R ²	0.035	0.108	0.432
Adjusted R ²	0.010	0.035	0.359
Residual Std. Error	0.995 (df = 77)	0.982 (df = 73)	0.801 (df = 70)
F Statistic	1.388 (df = 2; 77)	1.479 (df = 6; 73)	5.915*** (df = 9; 70)

Note:

*p<0.1; **p<0.05; ***p<0.01

Table 4: Electoral Determinants of Intergovernmental Transfers

	<i>Dependent variable:</i>			
	scale(GovTrn2013)			
	(1)	(2)	(3)	(4)
marginivic	−0.654 (0.754)	−0.528 (0.768)	−0.724 (0.631)	
pctputin				−1.164 (0.925)
IBE		−0.138 (0.171)	−0.080 (0.139)	−0.085 (0.139)
ITP		0.030 (0.213)	−0.037 (0.174)	−0.041 (0.173)
pop		−0.000 (0.00000)	0.00000 (0.00000)	0.00000 (0.00000)
poverty		0.001 (0.032)	0.001 (0.026)	0.001 (0.026)
pctcity12		1.921** (0.896)	0.930 (0.948)	0.952 (0.945)
GRP2012		0.00000 (0.00000)	0.00000 (0.00000)	0.00000 (0.00000)
moscowdummy			5.212*** (0.848)	5.182*** (0.846)
ncaucusdummy			0.420 (0.388)	0.416 (0.387)
republiccdummy			−0.116 (0.261)	−0.115 (0.260)
Constant	0.306 (0.370)	−1.061 (0.818)	−0.412 (0.822)	−0.009 (0.959)
Observations	80	80	80	80
R ²	0.010	0.114	0.443	0.445
Adjusted R ²	−0.003	0.028	0.362	0.364
Residual Std. Error	1.002 (df = 78)	0.986 (df = 72)	0.799 (df = 69)	0.797 (df = 69)
F Statistic	0.752 (df = 1; 78)	1.326 (df = 7; 72)	5.479*** (df = 10; 69)	5.526*** (df = 10; 69)

Note:

*p<0.1; **p<0.05; ***p<0.01

My replication of Jarocinska's model finds no significance in Putin's interaction with regional governors after controlling for regional factors. (Table 5) Data was collected from Putin's own websites, both his archived website from when he was Prime Minister, as well as his current presidential website. To bolster Jarocinska's model, I looked for not only Putin's visits to a region, but also those working meetings held in Moscow in which the regional leaders came to Putin.²³

However, as I will argue in the chapter two, I believe there is a causal explanation as to why Putin's visits were significant in the early 2000s, but have since become less important in determining intergovernmental transfers at the start of his third presidential term. In a few words, the consolidation of the power vertical made these meetings and the bargaining, likely a large part of them, irrelevant. A yet unpublished paper by Israel Marques et. al. suggests this very thing. "The declining ability of regional elites to challenge the federal center, meant the logic of transfers became less grounded in appeasing powerful elites."²⁴

²³ Putineither = Dummy variable expressing whether regional governor met with Putin, either in region or in Moscow.

²⁴ Marques, Israel, et. al. "Substituting Distribution for Growth: The Political Logic of Intergovernmental Transfers in the Russian Federation." HSE Working paper. Forthcoming at Economics and Politics, 2015. <http://israelmarques.com/working-papers/>

Table 5: Role of Direct Contact with Putin on Intergovernmental Transfers

	<i>Dependent variable:</i> scale(GovTrn2013)		
	(1)	(2)	(3)
Putineither	0.401* (0.230)	0.421* (0.241)	0.175 (0.204)
IBE		-0.117 (0.168)	-0.069 (0.139)
ITP		-0.024 (0.210)	-0.072 (0.174)
pop		-0.00000 (0.00000)	0.00000 (0.00000)
poverty		-0.020 (0.032)	-0.012 (0.027)
pctcity12		2.111** (0.887)	1.129 (0.960)
GRP2012		0.00000 (0.00000)	0.00000 (0.00000)
moscowdummy			5.015*** (0.870)
ncaucusdummy			0.403 (0.389)
republicdummy			-0.068 (0.259)
Constant	-0.145 (0.138)	-1.225 (0.766)	-0.736 (0.781)
Observations	80	80	80
R ²	0.038	0.145	0.438
Adjusted R ²	0.025	0.062	0.357
Residual Std. Error	0.987 (df = 78)	0.969 (df = 72)	0.802 (df = 69)
F Statistic	3.054* (df = 1; 78)	1.741 (df = 7; 72)	5.377*** (df = 10; 69)

Note:

*p<0.1; **p<0.05; ***p<0.01

New Political Determinants of Intergovernmental Transfers in 2013

Finding no evidence for the significance of presidential visits or electoral results in the determination of intergovernmental transfers, we are left theorizing what other possible factors might play a role. As the government's own methodology, using tax potential and budget expenditures, proves to be an incomplete factor in this case, there must be other political or social variables intervening in the final distribution of federal subsidies.

2011 and 2012 were tumultuous years for Russia and the Putin administration. Protests regarding election fraud during the parliamentary elections began to appear in late 2011. The December 10th protest on Bolotnaya Square has become the most well-known of these protests. Anywhere between 25,000 and 60,000 protesters showed up to speak out against corruption in the government, specifically the Central Election Commission. These protests continued on until as late as 2013. In addition to election fraud, some protesters were angered by the news that Vladimir Putin would once again be United Russia's candidate for the presidential election.

In light of these events, I chose to examine what effect, if any, protests have had on intergovernmental transfers. Departing from the findings of Popov, Treisman, and Jarocinska, this analysis enlightens how the political and social actions of Russia's citizens in 2011 and 2012 influenced the determination of intergovernmental transfers for 2013. The literature and data on protests in the Russian Federation has increased and improved since the "Snow Revolution". Notably, Tomila Lankina has produced a new set of data regarding protests in Russia's regions. While Western media often portrayed protests as being mostly contained within Moscow and St.

Petersburg, public demonstrations against the government did take place outside Russia's political and cultural capitals.²⁵

In order to test the hypothesis that regional protests influence the federal government's determination of intergovernmental transfers in the following year, I perform a simple OLS regression, employing the following equations:

$$IT_{2013} = \alpha * ITP_{lagged} + \beta * IBE_{lagged} + \gamma * Protests_{lagged} + \delta * Controls_{lagged}$$

$$\Delta IT = \alpha * ITP_{lagged} + \beta * IBE_{lagged} + \gamma * Protests_{lagged} + \delta * Controls_{lagged}$$

$$\Delta Dependence = \alpha * ITP_{lagged} + \beta * IBE_{lagged} + \gamma * Protests_{lagged} + \delta * Controls_{lagged}$$

In the first equation, the independent variable is the total intergovernmental transfers in 2013 (standardized). (Table 6) In the second, I examine how in 2011 and 2012 protests affect the absolute change in transfers from 2012-2013. (Table 7) And in the final regression, I regress total protests on the percent change of regional financial dependence on federal transfers from 2012 to 2013. (Table 7) The first thing to note is the continued insignificance of the indices of tax potential and budget expenditures. Only when we regress protests, tax potential, and budgetary expenditures on the standardized data of 2013 transfers do we find that either of the economic methodological factors seem to have a significant influence on transfers.

Second, all three independent variables have effects that are positive and significant. Thus, we can conclude that increases in regional protests result in increased transfers and increased

²⁵ Barry, Ellen. "Tens of Thousands Protest in Moscow, Russia, in Defiance of Putin." The New York Times, December 10, 2011. <http://www.nytimes.com/2011/12/11/world/europe/thousands-protest-in-moscow-russia-in-defiance-of-putin.html>.

regional dependence on federal funds. With regards to total transfers in the first regression, a 1 unit change in protests results in a .5754% increase in total transfers in the following year. This becomes easier to interpret after examining the second regression which showed that a unit change in the number of protests in a given region, on average, leads to a 159 million ruble increase in total transfers in the following year in that region. This result is further bolstered by the substantial R-Squared value of .5761.

There is also evidence for increased regional dependence on federal subsidies, I.e., a larger proportion of total regional income comes from intergovernmental transfers (and presumably not from incomes acquired through other various means, e.g., decreased tax remittance to federal government, increased income from natural resources, etc.). This would seem to suggest a centralizing tendency by the federal government following increased protests in a region. However, I will discuss this potential conclusion in later sections.

Another note of interest is the significance of urban populations. There does seem to be evidence of larger urban populations being significantly related to larger intergovernmental transfers.

Finally, I test a unified regression of all the previously identified intervening factors (Putin's margin of victory in 2012, meetings between Putin and regional leaders, and regional protest numbers) to check the robustness of my results concerning the significance of regional protests on intergovernmental transfers. (Table 8)

Table 6: Effect of Regional Protests on Intergovernmental Transfers

	<i>Dependent variable:</i>		
	scale(GovTrn2013)		
	(1)	(2)	(3)
TotProtest	0.014*** (0.002)	0.014*** (0.002)	0.033*** (0.005)
IBE		-0.028 (0.120)	0.0004 (0.111)
ITP		-0.081 (0.149)	-0.079 (0.138)
pop		0.00000 (0.00000)	-0.00000 (0.00000)
poverty		-0.008 (0.022)	-0.023 (0.021)
pctcity12		-0.148 (0.673)	-0.567 (0.793)
GRP2012		0.00000 (0.00000)	0.00000 (0.00000)
moscowdummy			-8.491*** (2.228)
neaucusdummy			0.333 (0.309)
republicedummy			-0.024 (0.206)
Constant	-0.218** (0.083)	-0.052 (0.563)	0.271 (0.639)
Observations	80	80	80
R ²	0.502	0.564	0.645
Adjusted R ²	0.495	0.522	0.594
Residual Std. Error	0.710 (df = 78)	0.691 (df = 72)	0.637 (df = 69)
F Statistic	78.579*** (df = 1; 78)	13.316*** (df = 7; 72)	12.539*** (df = 10; 69)

Note:

*p<0.1; **p<0.05; ***p<0.01

Table 7: Effect of Regional Protests on Intergovernmental Transfers(2)

	<i>Dependent variable:</i>	
	scale(chggovtrn)	chgptdep
	(1)	(2)
TotProtest	0.036*** (0.005)	0.0001*** (0.00001)
IBE	0.008 (0.105)	0.00002 (0.0003)
ITP	0.049 (0.130)	0.0002 (0.0004)
pop	0.00000 (0.00000)	0.000 (0.000)
poverty	0.003 (0.020)	0.0001 (0.0001)
pctcity12	-0.254 (0.750)	0.003 (0.002)
GRP2012	-0.00000 (0.00000)	-0.000 (0.000)
moscowdummy	-9.858*** (2.106)	-0.024*** (0.006)
ncaucusdummy	0.090 (0.292)	0.0001 (0.001)
republicdummy	0.068 (0.195)	0.0001 (0.001)
Constant	-0.412 (0.604)	0.007*** (0.002)
Observations	80	80
R ²	0.683	0.446
Adjusted R ²	0.637	0.366
Residual Std. Error (df = 69)	0.603	0.002
F Statistic (df = 10; 69)	14.852***	5.559***

Note:

*p<0.1; **p<0.05; ***p<0.01

Table 8: Unified Regression of Previous Determinants on Intergovernmental Transfer

	<i>Dependent variable:</i>	
	scale(GovTrn2013)	
	(1)	(2)
TotProtest	0.014*** (0.002)	0.033*** (0.005)
marginvic	-0.676 (0.537)	0.055 (0.528)
Putineither	0.237 (0.168)	0.181 (0.164)
neaucusdummy		0.337 (0.312)
moscowdummy		-8.733*** (2.321)
republiedummy		-0.020 (0.210)
ITP		-0.095 (0.140)
IBE		0.006 (0.112)
pctcity12		-0.446 (0.805)
pop		-0.00000 (0.00000)
poverty		-0.031 (0.022)
GRP2012		0.00000 (0.00000)
Constant	0.018 (0.263)	0.234 (0.667)
Observations	80	80
R ²	0.522	0.652
Adjusted R ²	0.503	0.589
Residual Std. Error	0.705 (df = 76)	0.641 (df = 67)
F Statistic	27.610*** (df = 3; 76)	10.447*** (df = 12; 67)

Note:

*p<0.1; **p<0.05; ***p<0.01

Chapter 1 Conclusion

As with the previous literature on this topic, the first part of my paper was to examine and identify the bias in Russia's fiscal federal system. This research provides evidence confirming previous conclusions that the objective, economic measures utilized in the determination of intergovernmental transfers, i.e., tax potential and budget expenditure, were not the only pieces to the puzzle. Rather, political factors appear to also play a role in the final distribution of funds.

However, as has been previously stated, the influence of particular political factors is dynamic over time. Treisman, Popov, and Jarocinska all found evidence of the significance of electoral results in the determination of transfers. My present research on the fiscal data for 2012 and 2013 finds no significance in these factors, whether they be total regional votes for Putin, regional votes for Putin per regional population, or regional margin of victory (over 2nd place candidate). Furthermore, while Jarocinska came to a robust conclusion that Putin's visits to regions were later accompanied by increased subsidies to those regions, this political factor appears to play no role in 2012 and 2013. In fact, neither Putin's visits to the regions nor Putin's meetings with regional leaders in Moscow (whether as Prime Minister or President in 2012) have any significance in the distribution of federal aid.

Given the social discontent expressed regarding the 2011 and 2012 elections in Russia and the new data provided by Lankina on regional protests, I chose to examine whether or not protests acted as an intervening factor in the determination of the Federal budget. My results confirmed that, indeed, protests were a significant factor in this time period, indicating that increases in

regional protests were followed by increased intergovernmental transfers in the following year in those regions. My results in Table 6 suggest that each additional protest in a given region is followed by roughly a 785 million ruble. Additionally, these intergovernmental transfers became a larger proportion of those regions' total income in the following year, perhaps suggesting the federal governments centralizing tendency in response to social and political discontent among its citizens.

Yet, one question remains to be answered. Despite the identification of various political factors in the federal process for determining transfers, the literature on the topic fails to discuss the question of why these factors appear dynamic. That is to say, why do different factors possess different significance at different times? What are the causal mechanisms for the dynamics of political determinants of intergovernmental transfers in Russia? Certainly, we possess more data in 2016 than Daniel Treisman in 1998. Given our perspective in time, we can identify the important events in Russia's political development that have influenced the outcomes of what is intended to be an objective, unbiased methodology for distributing funds to those regions with the greatest need. Rather presciently, Vladimir Popov hypothesized that Russian federalism would enter a "more stable equilibrium", which would have an impact on the development of fiscal federalism. Popov's first possible, future equilibrium is one of "authoritarian symmetrical federalism resulting from the success of the centre in undermining opposing regional governments (once the central government has ousted trouble-making authorities in the regions and replaced them with more loyal administrations, it stops their underfinancing)".²⁶ As I will

²⁶ Popov, "Fiscal Federalism in Russia: Rules versus Electoral Politics," 539.

explain in the next chapter, it is the development, establishment, and maintenance of this very equilibrium that best explains the dynamism of political factors influencing intergovernmental transfers over the last 25 years.

Chapter 2 - Towards an Understanding of the Dynamics of Political Determinants of Intergovernmental Transfers

Hale's Patronal Politics

As I explained in the previous chapter, the literature on fiscal federalism, and more specifically, intergovernmental transfers in the post-Soviet era points to the shifting influence of a number of disparate political factors. And while each article suggests various contemporaneous political causes, they fail to provide neither a chronological illustration of the intertwined developments of federalism and fiscal federalism, nor how Russia's type of regime set in place the sufficient environment for specific factors to have influence in the federal budget. My goal, in this chapter, will be to provide a theoretical foundation for understanding the causal mechanisms for the dynamic political influences found in Russia's system of fiscal federalism. To do this, I will employ Henry Hale's recent theoretical work on Patronal Politics in the post-Soviet environment.²⁷ With this understanding of how politics has developed in Russia over the past 25 years, we will be better equipped to identify particular aspects of the ruling regime which have affected intergovernmental transfers.

Hale's theory begins by questioning the conventional wisdoms of politics generally applied to the post-Soviet sphere. This region was previously understood as going through phases of democratization, authoritarianism, and/or revolution, not always remaining static in one regime

²⁷ Hale, Henry E. *Patronal Politics : Eurasian Regime Dynamics in Comparative Perspective*. Problems of International Politics. New York, NY: Cambridge University Press, 2015.

type for long periods of time. Other than those states that are current members of the European Union, most have gone through drastic changes in political culture. According to Hale, political scientists have had trouble explaining this erratic behavior, so he provides a simple explanation, i.e., “It may be that all this is simple instability, in which case there is no need for reconceptualization or further explanation of this movement. But it may also be that that regime equilibria can be dynamic, that what we might be witnessing is regular, cyclic behavior characteristic of a certain underlying type of regime.”²⁸ Perhaps, it’s not so simple to refer to regimes as changing between democratic, authoritarian, or even simply hybrid descriptions. What we require to understand this “movement back and forth” is a new conception of a regime that possesses a dynamic equilibrium.

In order to understand the larger context in which this dynamic, cyclic politics takes place, we need to understand Russia’s long historical legacy of patronalism in politics. Patronalism, for Hale, is a system in which politics is pursued, not primarily through formal institutions and issue-based politics (those these do have their uses at times), but through personal connections and large networks of patron-client relationships. In order to get something done in Russian politics, you have to know somebody and be able to do something for that person. This theory gets its name from the driving force of these patron-client relationships. Patrons will take on a client with some goal of furthering their agenda. Meanwhile, the client is trying to increase their influence, so that they can build their own power network. The impetus of this system comes in the form of concrete rewards and concrete punishments to specific individuals. For example, if a regional

²⁸ Ibid., 8.

governor in 2006 was unable to successfully solve a divisive issue in their region, Putin might use his political clout to appoint a new governor.

As mentioned above, one characteristic of the political dynamics of a patronal regime is its cyclical nature. This shifting from democracy to authoritarianism and back is largely a result of the expectations of the elite and civil society. There are swaths of time in which a patron works hard to accumulate political authority. They try to establish their own “pyramids of power”, which act as large political machines. Informal politics, that is, the progression of politics through the aforementioned networks of personal connections, construct the pyramid of power on a foundation of patron-client relationships.

And yet, patronal political regimes do have weaknesses, as demonstrated by the presence of political revolutions across the post-Soviet space. (Tulip, Rose, Orange, EuroMaidan) Hale argues that these regime vulnerabilities appear in times of succession crisis. Struggles between elites happen when a leader is expected to vacate their position on the power vertical or pyramid of power. For instance, in Ukraine in 2004, President Kuchma had already served two terms and was expected to step down (he didn't run for president). Given these expectations of regime change, tensions were high going into the election. Thus, when news spread about possible electoral fraud, the nation was already primed to respond, as a result of the expectations of regime change. Civil society was able to insert itself into the political process, due to the vulnerability of succession crisis. In short, expectation plays an influential role in the stability (and instability) of a patronal regime. As we will see, expectation plays a large role in the development of federalism and fiscal federalism in the Russia's post-Soviet history.

In summation, “highly patronalistic societies are prone to feature patrimonial/neopatrimonial forms of rule and legitimate domination, pervasive clientelism, high levels of “corruption,” widespread machine politics, low civicness, weak rule of law, and *the frequent dominance of informal politics over formal politics.*”²⁹ It is the last part of this system that I’ve examined in my previous chapter. Do we often see informal politics overriding formal politics in Russia?

My results suggest that, yes, in fact formal politics are sometimes superseded by informal politics. Formal politics establishes a budget, which involves legislation and a formula for determining the amount of intergovernmental transfers to go to the regions based on tax potential, budget expenditure, etc. Informal politics interferes when political factors affect what should, for the most part, be determined by non-political variables. But, nowhere have we found an answer to the question of why specific political factors play a role in the budget-setting process. In order to explain this, we must learn how the underlying, historical legacy of patronalism made sufficient the environment in which this particular political interference in fiscal federalism developed. To complete this task, we must look at how the historical development of politics in post-Soviet Russia brought about the results that Treisman, Popov, Jarocinska, and myself have found. While we’ve each come to different conclusions, these, of course, are not mutually exclusive. As I will explain, I believe that the dynamics of these factors is intimately intertwined with the dynamics of patronal politics in Russia.

²⁹ Ibid, 28 (my emphasis).

Explaining the Dynamism of Intergovernmental Transfers

Proceeding chronologically, what explains the results found by Treisman and Popov?

(While they disagree on where the money is going, I associate them, because they seem to agree that political factors, specifically electoral results, played a significant role in the determination of the budget.) Assuming Hale is correct that Russia possessed a long historical legacy of patronalism, we might expect that with the election of Boris Yeltsin as president, the Russian elite would get behind him. While this is true to some extent, the early history of federalism in Russia tended to be more decentralized than in current time periods. Attempts to democratize Russia, following the collapse of the Soviet Union, led to a number of conflicts with regional elites. Concerning the early 90s, Alexeev and Weber point out that “Russia functioned as a rather loose federation, and many regions, including Chechnya, demanded and often received a great deal of fiscal and political independence (the so-called parade of sovereignties) through various deals with the central government.”³⁰

What explains this lack of cohesiveness in Russian federalism at the time? Hale’s theory suggests that, as this was early in the history of a newly formed state, expectations were diverse. At the time, it was likely unclear who possessed real power in the political system. As such, “[i]n some instances regional governments refused to transfer federal tax revenues to the central government.”³¹ This period of “fuzzy federalism” was characterized by uncertainty. Certain regions had treaties drawn up between themselves and the federal government.

³⁰ Alexeev, Michael, and Shlomo Weber, eds. *The Oxford Handbook of the Russian Economy*. 1st ed. Oxford University Press, 2013. 1.

³¹ Ibid.

We see a trend towards centralization in one political sphere in Russia (through the institution of a presidentialist political system), while decentralizing tendencies in another. In theoretical terms, we see the establishment of a patronal network in the state organization due to the expectation of continued power, while in the regions, unclear expectations lead to the continuation of separate, regional patronal pyramids. Hale acknowledges this issue, stating that “a patron with voluminous resources and a vast arsenal still may not be able to hold together his network if he has no way of finding out who deserves a reward and who a punishment.”³² To flip this argument, but still remain within the theory by including expectations, a patron with vast resources and the ability to punish or reward may still find resistance if other elites do not possess the expectation that the patron will punish them. In Russia’s case, this resulted in the first and second Chechen wars. Russia’s weak hold over Chechnya gave the regional leaders the impression that they would be successful in seceding from the state.

The development of a patronal system in the federal government, while the decentralizing efforts in the regions, I believe, explain why electoral results were a significant factor in determining intergovernmental transfers. Without a strong hold of the regions, that is, without regional leaders as clients, Yeltsin was unable to, fully and without chance of retaliation, punish regional leaders for not providing the electoral results he desired. Treisman found that “regions that voted most strongly against the pro-reform or pro-government blocs in 1993 and 1995

³² Hale, *Patronal Politics*, 31

received larger net central transfers per capita in subsequent years.”³³ (Treisman 1998, 904)

Treisman’s results suggest a strategy of appeasement by the federal government.

Popov, also attempting to identify the bias in the determination of fiscal transfers in the 90s, reexamined Treisman’s conclusions. While Popov did find that Popov’s conclusion seemed plausible for 1993, he rejected the claim that this strategy of appeasing “trouble-making regions” was present. Rather, Popov’s results show that, in the mid to late 1990s, “[r]egions that voted for leaders and parties that challenged the federal government and that had more tensions with Moscow tended to get less funds from the centre.”³⁴ Why, after 1993, would see a shift from a political strategy of appeasement to a strategy of punishment through intergovernmental transfers?

While power had not yet been consolidated to the level it has been under Putin, Yeltsin also took measures to establish spot at the top of a pyramid of power. Popov suggests that while Yeltsin took a less forceful approach with regards to the regions, he was much more assertive in his centralizing efforts within the federal government. The culmination of this was the shelling and dissolution of the Duma in 1993. More power rested in the hands of the president following the establishment of a constitutionally presidentialist system in Russia.

Thus, from a patronalistic perspective, we begin to see the consolidation of a pyramid of power that includes not only the president’s close allies, but now members of parliament. Furthermore, fiscal reforms developed in the mid to late 90s signaled to the regions that the federal government

³³ Treisman, “Deciphering Russia’s Federal Finance”, 904.

³⁴ Popov, “Fiscal Federalism in Russia”, 534.

would be taking the lead in setting the budget, and external pressure would not be accepted. All of this combined sent a strong message to the regions to “get in line” or there would be consequences. Carlos Gervasoni, writing on fiscal federalism and rentier subnational states, supports my conclusion. “Theory and evidence from other context suggest that, when the state controls most attractive jobs and other economic opportunities, individuals tend to acquiesce, while careerist activists and politicians join the incumbent party.”³⁵ (Gervasoni, 307-8) And yet, this process is not instantaneous. History shows that not all of Russia’s regional leaders “jumped on board with Yeltsin and Putin” at the first sign of centralization and the development of a patronal regime with the president at top.³⁶ (OJ Reuter, *The Politics of Cooptation: United Russia and Russia’s Governors*)

the late 90s while Yeltsin had begun to reign in the more anti-centrist regions and establish a number of centralizing reforms, his efforts failed to improve the nation’s economy. He eventually resigned from the presidency, and then Prime Minister Vladimir Putin took over. By not waiting until the next election, Yeltsin effectively sidestepped the succession crisis by putting Putin in a favorable position to win the upcoming election. Very quickly, the expectations driving patronal politics began to change. Putin won the 2000 presidential election with 53.4% of the popular vote, and began forming his own patronal pyramid.

³⁵ Gervasoni, Carlos. “A Rentier Theory of Subnational Regimes: Fiscal Federalism, Democracy, and Authoritarianism in the Argentine Provinces.” *World Politics* 62, no. 2 (2010). 307-308.

³⁶ Reuter, Ora John. “The Politics of Dominant Party Formation: United Russia and Russia’s Governors.” *Europe-Asia Studies* 62, no. 2 (February 5, 2010): 293–327.

Elena Jarocinska's research on fiscal federalism during Putin's first elected term in office showed no evidence that electoral results played a significant factor in the determination of intergovernmental transfers. Rather, her analysis showed the significance of Putin's regional visits. Between 2000 and 2004, Putin's visit to a region was significantly correlated with increased intergovernmental transfers to that region in the following year (controlling for other variables, including the government's own methodology for ideal transfer allocation). On the surface, there appears to be a simple, theoretical explanation for these results. This period was a period of establishing Putin's power vertical and his own extended network of personal connections. At this point in time, governors were still directly elected by their constituents, thus making them, in some ways, subject to the desires of their citizens. Putin's visits to the region, and subsequent increases in federal aid, likely signaled to regional leadership that, while it was necessary to please the voters, it was also beneficial to accomplish the goals of the president. That is, acting as the president's client came with a host of possible advantages.

But those versed in Russia's history of fiscal reform might be asking, "what of the fiscal decentralization efforts taken in 2000?" During the early parts of Putin's first term, a number of reforms were made regarding the tax code and the methodology for intergovernmental transfers, as well as the organization of federal presence in the regions. Fiscal decentralization proceeded at the same time as political recentralization. Jarocinska's results, thus, make sense given the causal chain inherent in patronal politics. Insert graph of causal chain.

Alone, Russia's adoption of the new tax code and a methodology for determining transfers might have produced a more objective, less politically influenced distribution of federal funds. However,

given the political causal chain, Putin's re-centralizing reforms injected political factors into the budget-setting process. One can speculate whether the decentralizing fiscal reforms were merely a "potemkin village", hiding the intended effects of the change in federal-regional political relations. In fact, Hale even admits that patronalism need not act only in the realm of informal politics. "[I]t is also true that patronalistic behavior can be formally codified in law without becoming less patronalistic and less important."³⁷

Furthermore, Jarocinska's results demonstrate a crucial aspect of Hale's patronal theory, i.e., chains of actual acquaintances.

"Patronal Politics refers to politics in societies where individuals organize their political and economic pursuits primarily around the personalized exchange of concrete rewards and punishments through chains of actual acquaintance, and not primarily around abstract, impersonal principles such as ideological belief or categorization like economic class that include many people one has not actually met in person."³⁸

Establishing actual acquaintances is a critical part of maintaining a patronal regime. More intimate relationships between patron and client lead to more accountability on both sides. If a governor tells Putin to his face that he will do something, he had better do it or face the consequences. However, if that governor says on TV that he wants to pursue a specific reform, it's less clear to whom he is accountable. Additionally, the patron needs to give proof to his potential clients that there will be benefits to subordinating oneself. Jarocinska's research suggests that, after Putin visited a region, that region received larger net intergovernmental transfers. This

³⁷ Hale, *Patronal Politics*, 26.

³⁸ Ibid, 10.

strategy of the federal government may have been the second part of this argument. This money may have been a message from Putin saying, “Look what positive things I can make happen.”

One large criticism of this interpretation is apparent in the political reforms of 2000. Putin’s establishment of the presidential plenipotentiary envoys to the Federal Districts appears to belie the Putin’s desire to establish direct relationships with regional leaderships. In Hale’s theory, this reform need not contradict Putin’s actions. While actual acquaintances are important for establishing the patron-client relationship (hence, the visits), the relationship does not necessarily need to be maintained through direct contact. It would be difficult for a president to constantly monitor the progress of 80+ governors. Instead, it would be much easier to create an intermediary, whose job is one of monitoring. This is an excellent example of the codification of patronalistic behavior. The legal creation of a new organization within the executive branch that both monitors the patron-client relationship and does so in a formal political way is an asset. I argue that this conclusion is further supported by the results of my reexamination of Jarocinska’s analysis using more recent data. The lack of evidence supporting the original hypothesis that Putin visits results in greater funding corroborates the story that the introduction of the envoys was a tool for maintaining the patron-client relationship.

As convoluted as this argument may be, there’s an even clearer example of the strengthening of the patron-client relationship in 2005. Putin’s decision to replace the direct election with the appointment of governors signals a tightening of his pyramid of power. Governors would no longer be directly accountable to the citizens through elections. Rather,

despite the regional legislative bodies nominating the governor, the president had the final power of approval for the position.

By 2007, Putin had successfully consolidated his power over the regions. United Russia won 64.3% of the seats in the Duma, and the majority of Russia's governors were members of the party and appointed by the president. The 2008 presidential further signaled the establishment of Putin's pyramid of power with the election of his successor, Dmitry Medvedev, with 71.2% of the popular vote.

Turning now to my own reexamination, what explains the decrease in influence of election results and Putin's visits to the regions, as well as the new significance of regional protests in determining intergovernmental transfers? Let's begin by addressing the first half of the question. Jarocinska's negative results regarding the role of electoral variables still hold in 2013, likely because the relationship between the regions and the federal government has not reverted back to a more equal state. Russia's centralizing reforms of the early 2000s continued to prevent regional leaders from challenging Putin's authority. This very point is addressed in Israel Marques' et. Al. recent research on transfer distribution to "swing" and "core" regions within the Russian Federation.³⁹

"The declining ability of regional elites to challenge the federal center, meant the logic of transfers became less grounded in appeasing powerful elites. Although some regional elites maintained strong political machines, centralizing fiscal reforms and the advent of gubernatorial

³⁹ Marques et. Al, "Substituting Distribution for Growth".

appointment, meant that elite survival (and rents) in the UR dominated system was tied to reproducing the power of the dominant party through the electoral system. Because their survival became tied to UR's success, the center was able to use regional elites as specialized transmission belts, allocating funds within their regions to insure a strong electoral showering for UR. Elites adhered to the system in order to avoid being removed from power by the center and to continue to benefit from the hegemonic party project.”⁴⁰

Marques explains that the reason we no longer see evidence of the appeasing or punishing strategies of the 90s is because of the cooptation of regional elites through the introduction of gubernatorial appointment. Instead, Marques argues, federal transfers go to those regions where funds are needed to “shore up” support for United Russia. In times of economic prosperity, Putin can afford to give less to his core regions, and attempt to make swing regions into core. When the economy is faltering, Putin is forced to maintain his core regions’ support through federal aid.

Further, the decreasing role of Putin’s visits to the regions can also best be understood because of the centralizing reforms of Putin’s first terms, particularly, the creation of the federal envoys. As I addressed above, maintaining the patron-client relationship with every regional governor would be an arduous and time-consuming task. By inserting an intermediary step in power vertical, Putin was able to pass this responsibility of monitoring the regional leaders’ progress towards his goals to the presidential envoys. This delegation of tasks makes political sense, given the valuable time of the president.⁴¹

⁴⁰ Ibid, 15.

⁴¹ An interesting avenue of research would be to examine whether or not there is any significance for presidential envoys’ visits to or meetings with governors. I attempted to look for this data, but was unable to locate any sort of

Having explained how Hale's theory of patronal politics explains not only the presence of certain political factors in the budget process, but also why these factors have become less influential over time, we can turn to a theoretical explanation of the results of my own research. Why does it appear that increased net intergovernmental transfers go to those regions which had protests in the previous year?

All of the theoretical components discussed previously in this thesis are necessary to understand the presence of these results in this dynamic political and economic environment. As I mentioned previously, patronal regimes are particularly vulnerable to succession crises. When elites expect a potential loss in the power of the patron, they began to examine their options to improve their political position. Examples of this are the Orange revolution and Euromaidan in Ukraine, or the Rose revolution of Georgia. These periods of uncertainty led to the possibility of the power vertical collapsing or restructuring. With the expectation that the patron will stay in power no longer a necessary situation, other avenues, including protests, were open to rivals to change the political situation.

Putin, aware of the results of the Orange, Rose, and Tulip revolutions, desired to prevent this, following the 2011-2012 protests against the Duma elections. This was a turbulent time, in which expectations might have been changing. The protests were the largest in Russia since the collapse of the Soviet Union. Perhaps, this was the moment that an opponent would step up and rival Putin. Yet, was there really fear of revolution or change of the regime among the ruling elite?

schedule of envoys' meetings. Likely, as envoys' meetings with regional leaders are much more common, they are less reported on than Putin's meetings with governors, which are rarer now.

The results of the protests and the following presidential election suggest that, no, few expected the power vertical to experience any significant change. Why? Given the political entrenchment of Putin's United Russia nationwide, there were really no alternative rivals with the power to challenge Putin. Even in the regions, United Russia maintained majority support.

However, Putin (through Medvedev) was forced to respond to the protestors, in order to keep the legitimizing, yet coopted role of elections as a tool. Given the nearly absolute control of the regional political elite, Putin was able to introduce appeasing reforms, such as the return to direct election of governors, with little fear of damaging his pyramid of power. The structure of Putin's power vertical, while shifting de jure with elected governors, would de facto remain the same given United Russia's control of the regions.

So, what role does the intervening factor of protests play? Why would the federal government provide more aid to those regions which experienced more protests? There are two possibilities, but they both possess the same political motive. First, either the money was distributed with the intent to put down the protesters, either through increased police numbers, harsher legislation against protests, increased monitoring of subversive groups, or some combination of them all. Or, second, the funds were a tool to appease the protesters. The funds might have been intended to enact some of the changes the protesters demanded. Perhaps, both possibilities were just parts of the federal governments reasoning.

Either way, though, what the data suggests is a directing of federal funds to maintain the power structure. Whether through suppression or appeasement, intergovernmental transfers

were used as a tool to signal the continued power of the ruling elite and thus maintain expectations, a sine qua non of patronal regimes, that the status quo would remain unchanged.

Put together, we can see that the dynamics of fiscal federalism, i.e., the shifting political determinants of intergovernmental transfers, are deeply intertwined with the political dynamics of the Russian patronal regime. While we would expect fiscal federalism to be based on objective rules or methodology for determining an efficient and fair system of financial aid distribution, what we find is the corruption of the fiscal system by the development, establishment, and maintenance of the ruling elite's pyramid of power within Russia. Hence, Hale's theory of patronal politics has proven to be a useful theoretical foundation for understanding heretofore unexplained fluctuation of political factors significant role in setting the federal budget.

Conclusion

There has been a vast literature written on corruption and informal politics in the Russian Federation compiled by scholars over the last 25 years. This study adds to that literature, demonstrating how informal politics of patronalism, which has existed in Russia since Imperial times, continues to affect the formal politics of the state's systems of governance. Given the lack of recent study on political determinants of Russia's fiscal federal system, I argued that the topic deserved a reexamination of previous conclusions. In doing so, I found evidence that previously identified political factors playing a role in the federal government's allocation of intergovernmental transfers were no longer significant in the post-Bolotnaya Russia of 2013.

Rather, my analysis shows that in 2013, protests played an important role in which regions gained larger federal subsidies.

This thesis also examined the yet unaddressed question of the reason for shifting influence of particular political factors. While it's fairly obvious that as domestic politics changes within a country, the fiscal federalism system will also be reformed. However, what's less clear is why the previously identified political factors were significant at particular times in the development of Russia's domestic politics. To explain this, I demonstrated how the development, establishment, and management stages of Putin's system of patronalism all coincide with the significance of particular political factors. That is, the dynamics of patronalism are mirrored by the dynamics of the political factors determining intergovernmental transfers.

In light of Henry Hale's original work on the development of patronalism, scholars of the former Soviet Union states are equipped with a theoretical foundation for understanding the complex interplay of formal and informal politics in the region. Not only is this helpful to scholars of Russia, but, perhaps of greater significance, this new understanding may help experts more fully understand the dynamics and interplay of the post-Soviet space's politics and economics. Further, I don't think it's too implausible to suggest that such an examination might be useful in understanding other hybrid regimes across the globe, e.g., Egypt, Brazil, Argentina, and Mexico.

Given this, there are a plethora of areas for further research on this topic. First, a more detailed examination on the political determinants of intergovernmental transfers in Russia is needed. In particular, the use of more sophisticated methods, such as panel data, would help us understand the dynamics of this system over time. One question that is left unanswered by my

work is whether protests were always a significant political factor. Additionally, there are other political developments that deserve examination with relation to transfers, such as the effects of direct election or appointment of regional governors, the annexation of Crimea, and the economic crisis and sanctions. Finally, as I mentioned above, there is the opportunity for employing this type of analysis on other countries.

Despite the statistical significance and theoretical explanation provided here, it's important that we remember the intended function of intergovernmental transfers for which they were established. As I stated above, these transfers were designed to improve the prosperity of all of Russia's regions. They were designed to negate regional disparities in education, social welfare, and health care, as well as helping to close the gap between poorer and wealthier regions in the country. Contrary to this purpose, however, Thiessen notes that "there has been a growing number of regions with per capita incomes below the national average before fiscal equalization whose relative income position has deteriorated further through fiscal redistribution."⁴² Rather than achieving fiscal equality and fairness across the country, Russia's leaders have abused a system intended to help impoverished regions, in order to achieve their own political goals. Whether this scheme is a viable long term strategy for those in charge, or whether it will lead to increasingly dissatisfied population and the revolution of civil society, remains to be seen.

⁴²Thiessen. "Fiscal Federalism in Russia: Theory, Comparisons, Evaluations." 211.

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